

GREATER PHOENIX APARTMENT OWNER'S NEWSLETTER

KASTEN LONG COMMERCIAL GROUP

RE/MAX Commercial Investment

1st Quarter 2008

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(January – March 2008)
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KLCommercialGroup.com

formerly: PhxAptsForSale.com

Physical vacancy is up to 9.7% with no immediate remedy in-sight. The new Employer Sanctions Law probably has more effect on the lower rental rate properties while the multitude of unsold vacant homes being turned into affordable rentals has clearly created vacancy issues in the larger (151+ unit) properties. Of the Valley's 32 districts, 16 reported 10% or greater. Apartment sales activity was minimal in the 1st quarter. The breakdown by number and age of the 34 individual sales is as follows: 6 (1990 to 2007); 13 (1980's) and 15 (older than 1980).

Buyers and buying activity will return when vacancy rates decrease and rents increase – but this will take possibly a year (maybe more). For distressed properties – see possible option on page 3.

Kasten Long Commercial Group Update: The Kasten Long Apartment Team has expanded its services. We still specialize in apartments, but we now offer office, investment, retail and land brokerage services. See our new web site for details.

Vacancy Climbs to 9.7%

At the end of the 1st quarter of 2008 the vacancy rate for all-size, existing (>6 mo.'s) multifamily units increased from 8.5% in the 4th quarter to 9.7%. Of the 327,461 total multifamily units, there were 31,900 reported as vacant.

# of Units	2007 4th Qtr.	2008 1st Qtr.
2 - 24	2%	3%
25 - 50	4%	8%
51 - 75	6%	8%
76 - 99	6%	7%
100 - 150	8%	8%
151 - 200	8%	9%
200+	9%	11%
Average	8.5%	9.7%

The highest vacancy rates were reported in Gilbert (16%), Central West Phoenix (15%), Maryvale (13%) and 12% for Christown and the Western Suburbs. All other districts reported between 7% and 11%. As has been the case for the past year, the larger complexes (151- 200+) reported the highest vacancies.

There were 1,466 apartment permits issued in the 1st quarter. This was led by two projects in the Western Suburbs totaling 775 units, one in Deer Valley (271 units), and one in Sun City (276 units). Completions in the 1st quarter totaled 776 units and included 150 units in Sunnyslope, 251 units in Glendale and 196 units in Gilbert.

Multifamily Data - Greater Phoenix Area

Year	Permits	Absorp.	Vacancy
1999	8,241	5,017	6%
2000	8,009	6,225	7%
2001	7,201	1,525	8%
2002	5,351	4,273	9%
2003	4,836	3,702	9.6%
2004	4,997	9,230	7.9%
2005	3,250	4,756	5.0%
2006	3,922	(4,653)	5.3%
2007	6,675	(5,846)	8.5%
2008(1)	1,466	(2,962)	9.7%

After posting a 2.1% rental rate gain in 2007, the 1st quarter had a drop of 0.9%.

Vacancy rates for each of the Valley's 32 sub-districts (with map), plus a list of new construction projects are posted under "Market Data" on www.KLCommercialGroup.com

Data Source for Vacancy and Demographics:

- Phoenix Metropolitan Housing Study, AZ R.E. Center Arizona State University's Polytechnic Campus

Greater Phoenix Apartment Sales

1st Qtr - 2008

ADDRESS CITY "NAME"	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
17030 N 49 th St Scotts, 'Pillar at Desert View'	412 424,368	\$59,897,000 \$141.14	1/14/2008 1996	\$5,007,867 \$145,381	12.0 5.5	144 1/1, 196 2/2, 72 3/2
6610 N 93 rd Ave Glendale, 'Pillar at Westgate'	251 251,426	\$46,435,000 \$184.69	2/7/2008 2007	\$185,000		123 1/1, 70 2/1, 44 2/2, 14 2/2.5 30% occupied, fka Alexan Westgate
7353 E University Dr Mesa, 'Sun Valley Ranch'	308 262,700	\$31,500,000 \$119.91	2/15/2008 2001	\$3,247,824 \$102,273	10.0 5.7	144 1/1, 48 2/1, 100 2/2, 16 3/2
7400 W Arrowhead Clbhs Dr Gldl, 'Pavilions at Arrowhd'	248 259,036	\$25,000,000 \$96.51	1/29/2008 1997	\$2,602,920 \$100,806	9.6 6.3	82 1/1, 166 2/2 85% occupied
20707 N 67 th Ave Gldl, 'Strayhorse at Arrowhd'	136 126,128	\$17,312,500 \$137.26	2/22/2008 1998	\$1,548,984 \$127,298	11.2 5.6	44 1/1, 80 2/2, 12 3/2
3045 N 67 th Ave Phoenix, 'Quail Point'	264 196,032	\$15,850,000 \$80.85	2/27/2008 1988	\$2,024,722 \$60,038	7.8 6.5	120 1/1, 72 2/1, 72 2/2
333 E Van Buren St Avondale, 'Mountain View'	150 88,396	\$10,012,000 \$113.26	2/15/2008 1984	\$66,747	6.5	18 st, 68 1/1, 40 2/1, 24 2/2
21220 N 23 rd Ave Phx, 'Villas at Lone Cactus'	96 102,240	\$9,600,000 \$93.60	2/28/2008 2004	\$979,200 \$100,000	9.8 5.6	96 2/2
1325 W Guadalupe Rd Mesa, 'Dobson Springs'	120 101,600	\$9,250,000 \$91.04	1/29/2008 1980	\$1,094,877 \$77,083	9.8 6.0	18 1/1, 102 2/2 65% occupied
1025-1049 N 48 th St Phx, 'Papago Gardens'	104 87,400	\$6,750,000 \$77.23	1/31/2008 1986	\$64,904		12 1/1, 92 2/2 Affordable living
5701 N 67 th Ave Gldl, 'Maridale Villa'	98 83,342	\$4,830,000 \$57.95	1/31/2008 1974	\$887,748 \$49,286	5.6 7.3	30 1/1, 41 2/1, 21 3/2, 6 4/2 87% occupied
5104 E Thomas Rd Phx, 'Villas Tomas'	66 22,412	\$4,300,000 \$191.86	1/28/2008 1973	\$64,152		
2641 W Butler Dr Phx, 'Desert Sun'	76 60,830	\$3,875,000 \$63.70	2/11/2008 1972	\$575,580 \$50,987	7.4 7.9	15 st, 15 1/1, 1 2/1, 45 2/2 72% occupied
1207 N 48 th St Phx, 'Santorini'	60 41,720	\$3,695,120 \$88.57	1/31/2008 1984	\$61,585	6.5	32 1/1, 28 2/1
5712 N 67 th Ave Gldl, 'La Mesa Village'	70 49,800	\$3,412,500 \$68.52	2/15/2008 1985	\$493,200 \$48,750	6.9 7.1	44 1/1, 26 2/2 70% occupied
1133 W 5 th St Tempe, 'Palm Terrace'	44 39,600	\$2,900,000 \$73.23	3/17/2008 1973	\$389,664 \$65,909	9.0 5.5	44 2/2 80% occupied
3658 N 5 th Ave Phx, 'Park Royal'	26 23,980	\$2,150,000 \$89.66	2/28/2008 1959	\$227,340 \$82,692	5.9 5.6	10 1/1, 4 2/1, 12 2/2 \$50K credit from seller to buyer
825 N 2 nd Ave Phx, 'Hilton'	34 18,078	\$1,988,000 \$109.97	1/9/2008 1954/1962	\$58,471		Also includes 840 N 1 st Ave
2216 E Eugie Terrace Phx, 'Eugie Terrace'	25 17,823	\$1,851,800 \$103.90	2/6/2008 1984	\$195,300 \$74,072	10.1 5.9	6 1/1, 16 2/1 Kasten Long Commercial Group sale
43 N Harris Dr Mesa, 'Dynamic'	48 16,950	\$1,850,000 \$109.14	1/7/2008 1987	\$167,500 \$38,542	11.0 5.0	30 st, 18 1/1 41% occupied
1026 E Spence Ave Tempe, 'Continental'	38 23,100	\$1,735,000 \$75.11	2/4/2008 1970	\$266,580 \$45,658	6.5 5.8	35 1/1, 3 2/1 Master-metered
4242-4250 N 25 th St Phx, 'Glenrosa Gardens'	22 23,700	\$1,710,000 \$72.15	1/4/2008 1963	\$77,727	6.0	11 1/1, 1 2/1, 10 2/2
1241 E Medlock Dr Phx, 'Villa Marbrisa'	15 15,700	\$1,605,000 \$102.23	2/29/2008 1962	\$153,000 \$107,000	10.5 5.9	4 1/1, 8 2/2, 3 3/2
4401-4407 N 36 th St Phoenix	16 12,606	\$1,500,000 \$118.99	3/13/2008 1959	\$138,000 \$93,750	10.9 5.0	2 1/1, 14 2/2 Part of 5 property assemblage
3009 N 36 th St Phx, 'Melbourne'	26 16,912	\$1,450,000 \$85.74	1/9/2008 1964	\$179,400 \$55,769	8.1 5.5	6 st, 12 1/1, 8 2/1 Kasten Long Commercial Group sale
837 E Montecito Ave Phx, 'Los Jardines'	28 20,392	\$1,440,000 \$70.62	1/4/2008 1981	\$191,128 \$51,429	8.3 5.8	12 1/1, 16 2/2 20% occupied, seller financing
3325 E Pinchot Ave Phx, 'Pecan Tree'	26 15,790	\$1,300,000 \$82.33	1/9/2008 1983	\$50,000		14 1/1, 12 2/1

CAP Cap Rate (NOI / Sales Price)
GSI Gross Scheduled Annual Income (Assumes 0% vacancy)
GRM Gross Rent Multiplier (Sales Price / GSI)
NOI Net Operating Income (Total income less vacancy and expenses)

Table compiled by: **Kasten Long Commercial Group**
 RE/MAX Commercial Investment
 Data source: COSTAR, MLS, Pierce-Eislen and
 personal knowledge. All information is believed to be
 accurate but is not guaranteed.

ADDRESS CITY "NAME"	UNITS SIZE (SF)	SOLD PRICE PRICE / SF	SALE DATE YEAR BLT.	GSI PRICE / UNIT	GRM CAP	COMMENTS
45 N Lyn Rae Dr Mesa, 'L & S'	17 11,010	\$953,500 \$86.60	1/4/2008 1968	\$108,120 \$56,088	8.8 6.8	9 1/1, 8 2/1
1736 E Brill St Phx, 'Brill Square'	18 8,856	\$860,000 \$97.11	3/31/2008 1983	\$100,800 \$47,778	9.4 6.5	12 1/1, 6 2/1
240 E Ruth Ave Phx, 'Angel'	14 8,210	\$800,000 \$97.44	3/31/2008 1983	\$89,616 \$57,143	8.9 6.1	4 1/1, 10 2/1
47-57 N Horne St Mesa, 'Lowe'	10 7,800	\$577,500 \$74.04	3/5/2008 1961	\$57,750		10 1/1
602 S 17 th Ave Phoenix	17 5,120	\$350,000 \$68.36	3/28/2008 1947	\$20,588		17 st
1533 W Denton Ln Phoenix	7 5,844	\$330,000 \$56.47	3/14/2008 1980	\$52,500 \$47,143	8.7 6.7	7 2/1 Kasten Long Commercial Group sale

An Option for Distressed Property Owners

We're not pushing this, but we have talked to a number of owners that have high vacancy issues and strong negative cash flow. In many cases, these properties are owned by individuals that live out-of-state. When owner funds are scarce, properties often go into a downward spiral.

Our Group works with several local owner/managers with their own staff of personnel that are excellent at repositioning apartments. These are good folks with plenty of quality references. On some properties, these owner/managers have taken over all aspects of the property, including the responsibility for paying the underlying mortgage payments and supporting not only the negative cash flow but adding significant monies to upgrade the property. In return, they ask for a portion of the future sale price after the property has been repositioned and rent stabilized. For owners that continue to pay out money monthly – this has been a life-saver.

If this might be of interest – please let me know.

Jim Kasten, CCIM
602 445 4113 office
602 677 0655 cell
480 603 4410 fax
Jim@KLCommGroup.com

The Apartment Market

Vacancy rates continue to increase, now at 9.7% compared to 8.5% last quarter AND there are many fewer buyers than previous years – and most seek real cash flow or “value added” opportunities. Only 34 individual apartment transactions were reported in the 1st quarter. The overall Arizona economy is still strong and we expect buyers to return when vacancies drop and apartment values start rising. Vacancies will decrease when 1. The effect of the Employer Sanctions Law is absorbed, 2. The local housing market is stabilized, and 3. The overall U.S economy strengthens.

The Employer Sanctions Law has driven undocumented workers out of the State, many going to surrounding states without such laws. This not only decreases the number of possible tenants, but has significantly hurt the various businesses and economy that support these folks. The long-term effect of this new law is still uncertain.

Many of the vacant homes that have been unable to be sold in the current housing market have been turned into rentals. The larger apartment communities, typically with higher rents, have been hit the hardest. Homes can accommodate more occupants and, on a price/sf basis, rents are similar or less. Of the homes sold this year, 54% were vacant and 38% of the active listings are vacant. There are currently \$53,000+ homes for sale on the Arizona Multiple Listing Service for Maricopa County. This is about twice the normal inventory. Based on the intense home buying in 2005 and 2006, it is likely that at least another 50,000 investor purchased homes are waiting to come onto the market. That’s a two year’s supply at the current sales rate.

The slackened U.S. economy has caused many individuals, and possibly some companies, from relocating to Arizona. We will still have a strong in-migration, but some estimate that it will be 30% less that projected. As the Country’s economy improves – so will the relentless population explosion into Arizona.

Jim Kasten, CCIM

KASTEN LONG COMMERCIAL GROUP – APARTMENT ACTIVITY

APARTMENTS “FOR SALE”

50 units, 2339 W Northern, Phx List: \$3.4M
44 units, 1626 W Desert Cove, Phx List: \$2.695M
34 units, 5725 N 8th Pl, Phx List: \$2.495M
21 units, 5502 W Palmyra Ave, Gndl, List: \$1.180M
18 units, 4207-4213 N 9th St, Phx List: \$875K
16 units, 1804 W Tuckey, Phx List: \$1.084M
16 units, 312 E Hatcher, Phx List: \$960K
16 units, 1814 W Vogel, Phx List: \$949K
14 units, 4822 E Holly St, Phx List: \$850K
14 units, 7108 N 80th Ave, Glendale List: \$645K
13 units, 498 N Arizona Ave, Chandler List: \$550K
12 units, 605 W Pierson St, Phoenix List: \$749.5K
12 units, 2948-3008 N 38th St, Phx List: \$595K
10 units, 44 N May, Mesa List: \$488.8K
9 units, 2414-2416 W Coolidge, Phoenix List: \$525K
8 units, 3205 E Earll Dr, Phoenix List: \$599K
6 units, 7561 N 27th Ave, Phoenix List: \$450K
4 units, 2249 W Vista, Phx List: \$295K
3 units, 4419 N 27th Ave #1,4,32, Phx List: \$499K

OTHER PROPERTIES “FOR SALE”

Retail Bldg + Land
2729 E Ind Schl Rd, Phx List \$975,000

Office
2924 N 24th Ave, Phx List: \$869,000

Land
1537 W Denton Ln, Phx List: \$249,900

Single Family Residences
1537 W Denton Ln, Phx List: \$249,900
1202 E Palm Ln, Phx List: \$348,500
4419 E Chaparosa Wy, C. Crk List: \$305K
4419 N 27th St, condo Phx List: \$179,900

1st Quarter 2008 CLOSINGS

26 units, 3006 N 36th St, Phx \$1.45M
25 units, 2216 E Eugie Terr, Phx \$1.851M
7 units, 1533 W Denton Ln, Phx \$330K
Office, 4109 N 12th St, Phx \$1.515M

KASTEN LONG COMMERCIAL GROUP

Jim Kasten, CCIM
602 445 4113 office
602 677 0655 cell
Jim@KLCommGroup.com

Jan Long, CCIM
602 445 4115 office
602 432 9882 cell
Jan@KLCommGroup.com

Scott Trevey, CCIM
602 445 4114 office
480 205 0862 cell
Scott@KLCommGroup.com

Terry Kass, CCIM, CPM,
602 445 4124 office
602 703 5277 cell
Terry@KLCommGroup.com

Scott Kane, Apt Specialist
602 445 4110 office
602 717 2542 cell
SKane@KLCommGroup.com

Jackie Allen, Associate Broker
602 445 4120 office
602 565 0641 cell
Jackie@KLCommGroup.com

Monica Kane, GRI, Op Manager
602 445 4141 office
602 717 1226 cell
Monica@KLCommGroup.com